

Message Text

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C O N F I D E N T I A L LONDON 10497

DEPARTMENT PASS TREASURY FOR PELIKAN AND SYVRUD; EXIMBANK

E.O. 11652: XGDS-1

TAGS: EFIN, UK

SUBJECT: GENTLEMEN'S AGREEMENT

REF: (A) STATE 158812; (B) ECBRUSSELS 6096

1. MESSAGE CONTAINED IN REFTELS DELIVERED MONDAY MORNING, JULY 2, TO DEREK SMITH, ECGD.

2. IN FOLLOWUP CONVERSATION TUESDAY (JULY 8), SMITH, SPEAKING PERSONALLY AND IN CONFIDENCE, EXPRESSED DIS-APPOINTMENT IN THE US POSITION OUTLINED IN REFTELS. SMITH STATED THAT WHILE IN WASHINGTON LAST MONTH, HE HAD BEEN EXCEEDINGLY CONFIDENT THAT A SATISFACTORY SOLUTION TO THE GENTLEMEN'S AGREEMENT WAS IN THE OFFERING. WHILE HE REALIZED THAT THE US HAD NOT ARRIVED AT A FINAL POSITION PRIOR TO HIS DEPARTURE, HE HAD RETURNED TO EUROPE WITH "HIGH HOPES" OF REACHING AGREEMENT.

3. SMITH CIRCULATED WITHIN THE EEC A PAPER OUTLINING THE POSITIONS DISCUSSED DURING HIS WASHINGTON TRIP, WITH THE IDEA THAT THE US WAS CLOSE TO ACCEPTANCE. SMITH SAID IT WAS THE FIRST TIME IN 12 MONTHS THAT THE FRENCH WERE VISIBLY DISCONCERTED. IN HIS OPINION, THE FRENCH REALIZED THAT IF THE POSITIONS WERE ACCEPTED, THEY WOULD HAVE TO GIVE GROUND ON INTEREST RATES. HOWEVER, WITH THE POSITION GIVEN IN REFTELS (SMITH CONSIDERS THIS A MAJOR CHANGE IN

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THE US POSITION AS HE UNDERSTOOD IT IN WASHINGTON), THE

FRENCH ARE "LEFT LAUGHING" AND OTHER EEC COUNTRIES, E.G. ITALY, ARE NOW QUESTIONING THAT MAYBE THE FRENCH WERE "RIGHT" ALL ALONG.

4. SMITH NOW FEELS THAT IT WILL BE IMPOSSIBLE TO REACH AGREEMENT AND THE FULL RESPONSIBILITY OF THE BREAKDOWN IN NEGOTIATIONS RESTS IN WASHINGTON.

5. AGAIN, SMITH'S VIEWS WERE EXPRESSED PERSONALLY AND IN CONFIDENCE. PLEASE TREAT AS SUCH, AND NOFORN.

RICHARDSON

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